

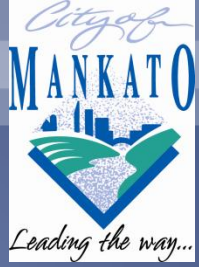
# City of Mankato

Citizens Budget and Property Tax Overview

For the fiscal year 2011

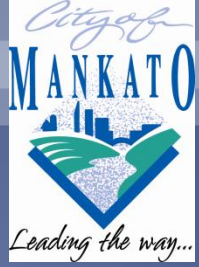
November 29, 2010

# Purpose of Tonight's Presentation



- ◇ Discussion of the correlation between the budget, service levels, and importance of Local Government Aid (LGA)
- ◇ Provide an overview of the 2011 proposed budget
- ◇ Discussion on the property tax levy
- ◇ Tonight's presentation will NOT address:
  - ◇ Individual Property Valuations
    - ◇ Specific valuation questions need to be directed to the Office of the County Assessor
    - ◇ Appeals to valuation amounts need to be directed to the Board of Equalization
    - ◇ Notification is sent by Blue Earth County

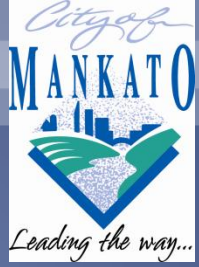
# Why does the budget matter?



- ◇ Many of the services provided in the budget are so much a part of the community, our daily lives and are so dependable that we rarely give them a second thought.
- ◇ In lean times, cities simply don't have the dollars necessary to meet all the needs of the community. Local Government Aid (LGA) from the state has been dramatically reduced over the past several years.
- ◇ It is critical that we maintain property taxes and fees at reasonable levels.

# Why does the budget matter?

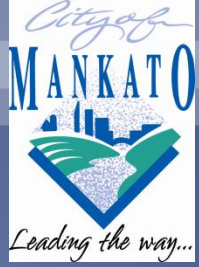
continued



- ◇ Cities are facing tough decisions. Just as with a household or business budget, when income goes down expenses need to go down, too. While initially this leads to resourcefulness and efficiency, there comes a point when hard decisions must be made about what community values are the priority. Many cities are at this point today.
- ◇ Figuring out how to pay for what the community wants and needs isn't easy. There are competing points of view and priorities to weigh, and funds provided from the state and federal governments are less and less reliable. While state and federal aid has led to efficiencies, many cities have few options left beyond cutting services or raising taxes and fees.
- ◇ [Outside the Ox Video](#)

# Why does the budget matter?

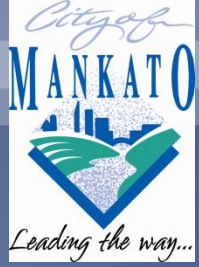
continued



- ◇ LGA cuts have resulted in service cuts and property tax increases.
- ◇ A Coalition of Greater MN Cities Survey shows cities are doing all they can to make up for these cuts in the form of:
  - ◇ Service level reductions (i.e. street maintenance, parks, public safety, snow removal)
  - ◇ Spending cuts (i.e. delay in capital expenditures or strategic initiatives)
  - ◇ Employee wages/benefits
  - ◇ Reduction in personnel
  - ◇ Increase in revenues (MN cities average a 5% increase in property taxes and 60% added new or higher fees)
  - ◇ Reserves and cash flow (74% of cities have reduced fund balances, 9% have inadequate fund balances, 3.5% used short term borrowing)

# Why does the budget matter?

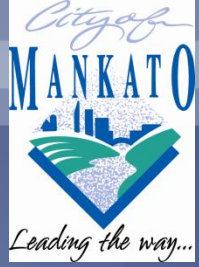
continued



- ◇ LGA was established as a method of providing fairness in property taxation across the state.
- ◇ The underlying philosophy of the LGA program is that no matter what corner of the state we live in, no matter how poor a city's property tax base is, and no matter how high a city's need is, all cities have the right to needed services.
- ◇ Cities pay for services through a combination of property tax revenues, and to a lesser extent LGA.
- ◇ LGA is distributed to cities based on a formula that identifies a city's need versus its effort or ability to raise revenues.

# Why does the budget matter?

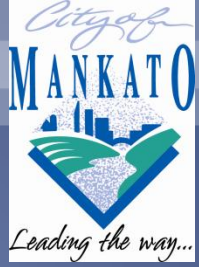
continued



- ◇ Some cities do not receive LGA because they have higher property wealth or lower need than other cities, and can raise enough revenues to cover the cost of services while maintaining a fair tax rate.
- ◇ However, for the majority of the state, this is not the case.
- ◇ Most cities are unable to cover the cost of services through property tax revenues alone and require LGA to maintain a fair tax rate.
- ◇ LGA makes up about 30% of Mankato's general fund.

# Why does the budget matter?

continued

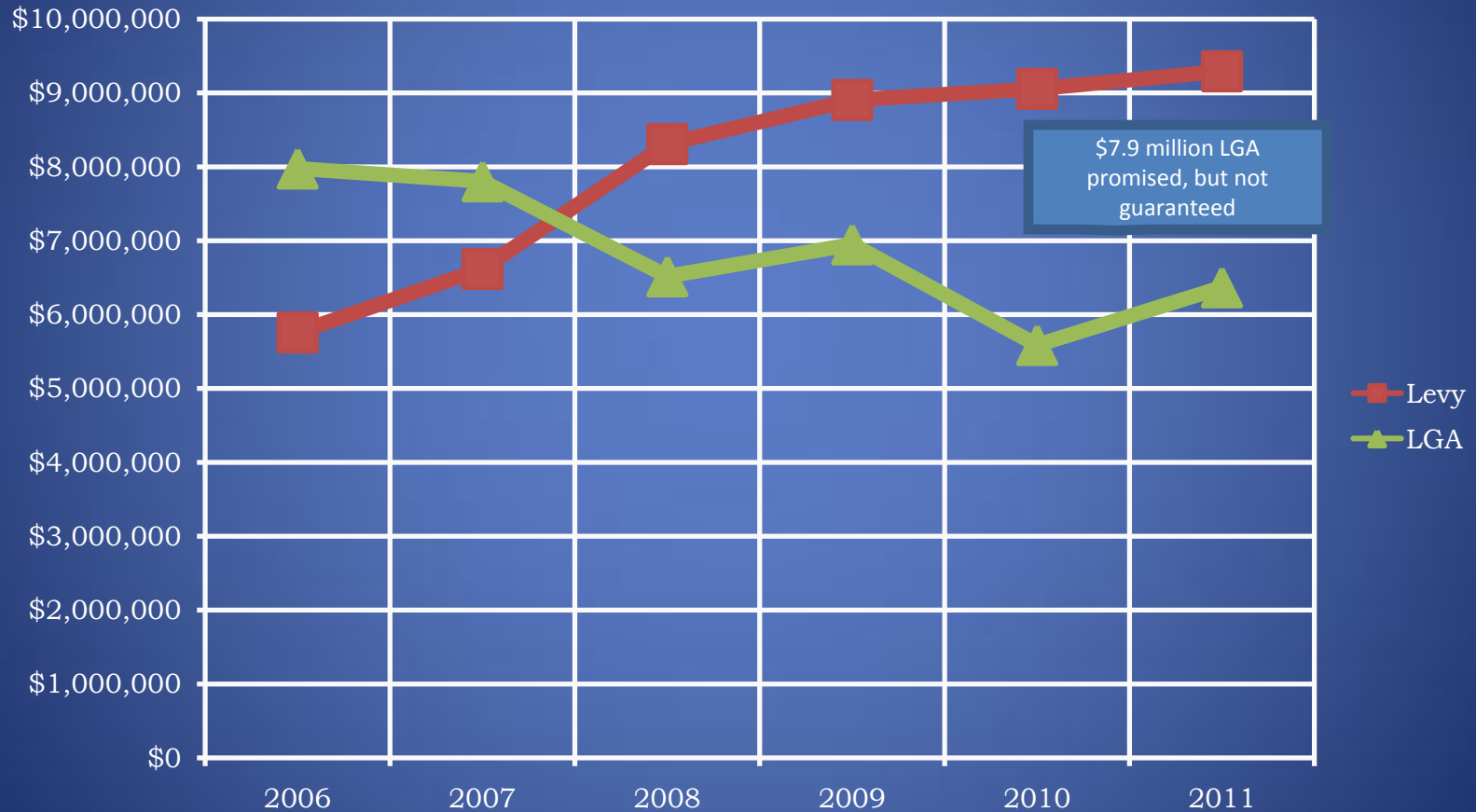
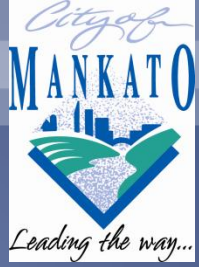


- ◇ Due to lower property wealth, greater Minnesota receives 65% of LGA - Minneapolis, St Paul, and inner-ring suburbs comprise the remaining.
- ◇ Because greater Minnesota is more dependent on LGA, the impacts of the cuts have been more detrimental to providing quality services, economic health and promoting livability.
- ◇ History tells us when LGA is cut, property taxes go up and services-police, fire, streets, parks, to name a few go down.



# Why does the budget matter?

continued



# How are property taxes calculated?

# Definitions

- ◇ Estimated Market Value (EMV)
  - ◇ Sometimes referred to as the Assessor's Market Value – the Estimated Market Value is assigned by the County Assessor's Office. Each year the Assessor's Office compares sale prices of parcels to the established assessed market values. If the assessed value is substantially below the recent sale prices, then the Assessor's Office must increase the market values (in the area) to bring the market values within a 90% threshold mark.

# Definitions continued

## ◇ Tax Capacity

- ◇ The tax capacity of a property is the value on which taxes are based.
- ◇ Tax Capacity is determined by multiplying the Assessor's Market Value (on a parcel) by the class rate established by the state legislature.

## ◇ Net Tax Capacity

- ◇ The Net Tax Capacity (of the city) is the sum of the tax capacity of all parcels within the city.
- ◇ The Net Tax Capacity for the City of Mankato is estimated to be \$32,649,100.

# Property Tax Class Rates

- ◇ Residential Homestead: . . . 1% of the first \$500,000 in value & 1.25% of any amount over \$500,000
- ◇ Residential Non-Homestead: . . . 1% of the first \$150,000 in value & 1.25% of any amount over \$150,000
- ◇ Commercial & Industrial: . . . 1.5% of the first \$150,000 in value & 2% of any amount over \$150,000

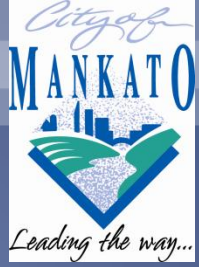
# Definitions continued

- ◇ City Net Tax Levy
  - ◇ This is the amount the City Council approves annually to be levied for property taxes.
- ◇ Mankato levies for four funds (separate check books)
  - ◇ General fund, Debt Service fund, Transit fund, and Economic Development fund
- ◇ In mid-September, the City Council established a maximum tax levy of \$13,429,000 for fiscal year 2011
- ◇ This represents an increase of \$250,818 over fiscal year 2010
- ◇ This represents an increase of 1.90%

# Definitions continued

- ◇ Net Tax Capacity Extension Rate
  - ◇ This is the rate at which property taxes are calculated for a governmental unit.
  - ◇ The extension rate of the City, County, School District, and Region 9 are required for a total property tax statement.
  - ◇ This rate is arrived at by dividing the City Tax Levy by the Net Tax Capacity (for the city).
- ◇ For 2011, this calculation (per the preliminary tax levy) is as follows:  $\$13,429,000 / \$32,649,100 = 39.56$ 
  - ◇ 2010 Tax Extension Rate is 38.05
  - ◇ 2009 Tax Extension Rate was 38.00
- ◇ Our discussion addresses the “city” tax extension rate of a typical property tax statement.

# 2011 Property Tax Overview



- ◇ The proposed 2011 general fund levy increase is 1.9% or \$250,818.
- ◇ The total proposed property tax levy is \$13,429,000.
  - ◇ General fund levy is \$9,295,000
  - ◇ Debt Service fund levy is \$3,707,000
  - ◇ Transit fund levy is \$167,000
  - ◇ Economic Development levy is \$260,000
- ◇ The estimated tax extension rate is 39.56.
- ◇ The levy results in a \$9.90 increase for the average value Mankato residential property of \$137,158.



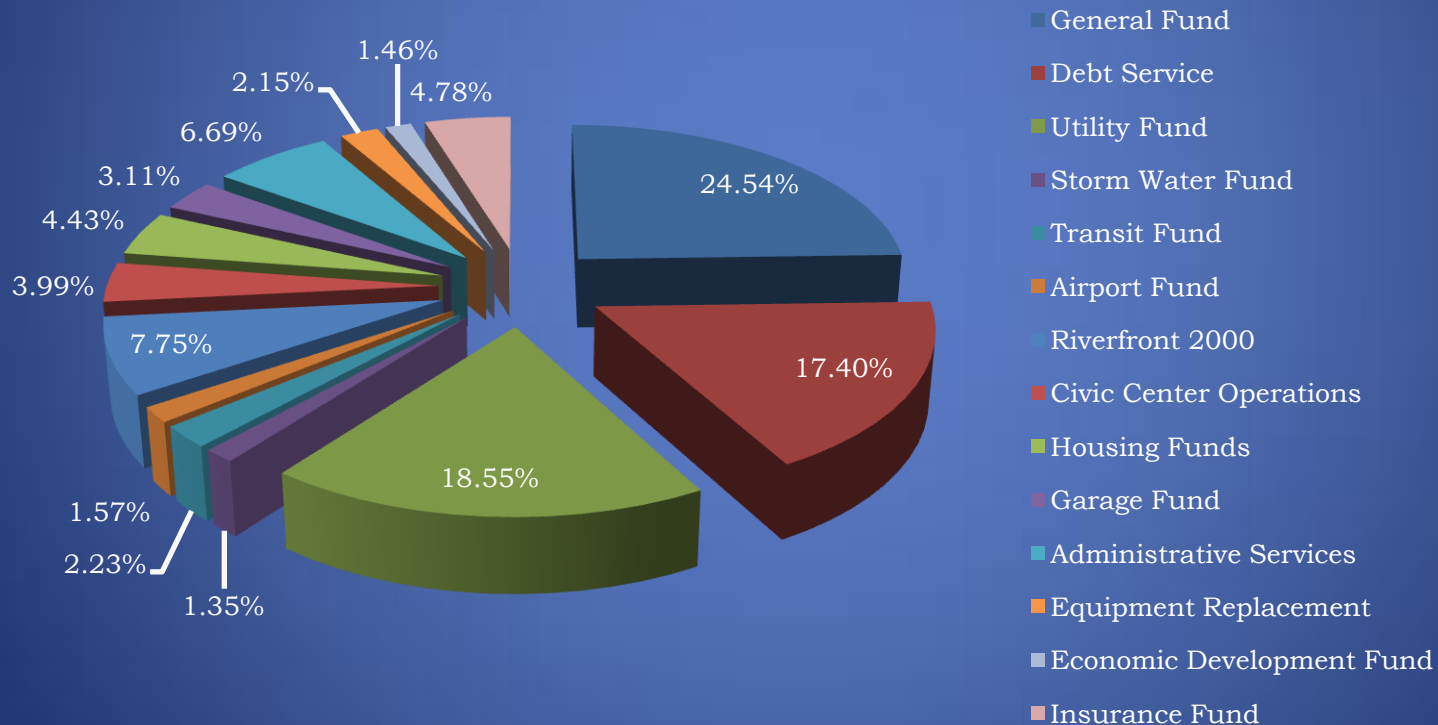
# Overview of Mankato's 2011 Budget

# Budget Process

- ◇ February - City Council is surveyed early in the year. Service levels & expectations are discussed.
- ◇ May - Strategic Plan and policy discussion held.
- ◇ June - Operating Budget is opened and department heads begin to assemble budgets for FY 2011 based on service levels and Capital Improvement Plans (CIP). Personnel budgets are frozen.
- ◇ July/August - A preliminary budget and CIP is prepared. An indication of the required property tax levy submitted for review.
- ◇ September - A preliminary maximum property tax levy is passed by the City Council.
- ◇ October - Final Budget is drafted & submitted to City Council for review.
- ◇ November - City Council to review budget and CIP over several budget sessions. Citizen budget public hearing is held.
- ◇ December - Approval of Final Property Tax Levy, City Budget, and Capital Improvement Plan.

# All Funds Summary

**All Funds Summary**



# All Funds Summary continued

- ◇ The total budget is approximately \$84.3 million. Many of the funds have dedicated sources and uses (i.e. Utilities, Civic Center, Housing, EDA, etc.)
- ◇ Dedicated funding sources are based on legislation (federal or state) and collection of fees for services.

# 2011 Budget Overview

- ◇ Lower expenditure and revenue levels are projected/proposed for 2011 due to the unresolved nature of LGA.
- ◇ LGA is certified for 2011 at \$7,995,000. Due to the tendentious nature of the state budget situation, we anticipate receiving only \$6,369,000 in LGA for 2011.
- ◇ If we should receive LGA above that amount (up to the certified level), the Council can examine reinstating service levels (filling open positions, street maintenance materials, etc.) and capital projects (i.e. public safety equipment, playground replacement).

# 2011 Budget Overview continued

- ◇ General fund spending for the past five years has been reduced by nearly 17%, or approximately \$3.5 million due to the ongoing Governor's unallotment of LGA and the unresolved nature of local government property tax relief. This is coupled by the Council's decision to increase the levy by a minimal increase levy adjustment to offset LGA losses and keep tax rates at a moderate and affordable level.
- ◇ Outcome = citizens will see a decrease in response times and changes in service delivery methods.

# 2011 Budget Overview continued

- ◇ In order to maintain 2010 budget levels for 2011, the following actions are part of the final budget (across all funds not just the general fund):
- ◇ A 0% increase in operational expenditures and delay of capital equipment/purchases.
- ◇ Base payroll costs for all employees is redlined at 2010 levels.
  - ◇ The exception would be step increases for new employees or step increases for employees on longevity, and health insurance premium increases or changes.
  - ◇ For non-union employees, there will be furloughs and a hard shut down of facilities. The hard shut down of facilities will be December 27-30 and July 1 and 5.
  - ◇ Unless union contracts are reopened and renegotiated to achieve the 0% increase in pay wages, a variety of methods will need to be deployed. Methods would include voluntary and mandatory furloughs, reduction of hours and layoffs.

# 2011 Budget Overview continued

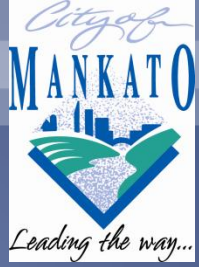
- ◇ Not filling seven full-time vacant/open positions within the general fund (including two police officers, two street/plow drivers, one parks worker/plow driver, one plumbing inspector, and one parks supervisor).
- ◇ In addition to the above position reductions, 11 additional positions were left unfunded during 2009/2010 budget deliberations.
- ◇ These reductions result in 37,440 lost productivity hours.
- ◇ Since 2009, there are a total of 28 open unfunded positions throughout the organization to address budget constraints.



# 2011 Budget Overview continued

- ◇ During the past year, cost containment measures in the city's self-insured health care fund have resulted in a projected 3% increase for 2011 premiums.
  - ◇ This is below the 8 -18% increases over the past decade and is generally below inflation rates for medical expenses.
- ◇ Energy related costs within the general fund (gas, electric, street lights, and fuel) are projected to increase by 2%. Below payroll costs, energy spending represents the second largest cost driver within the general fund.

# General Fund:

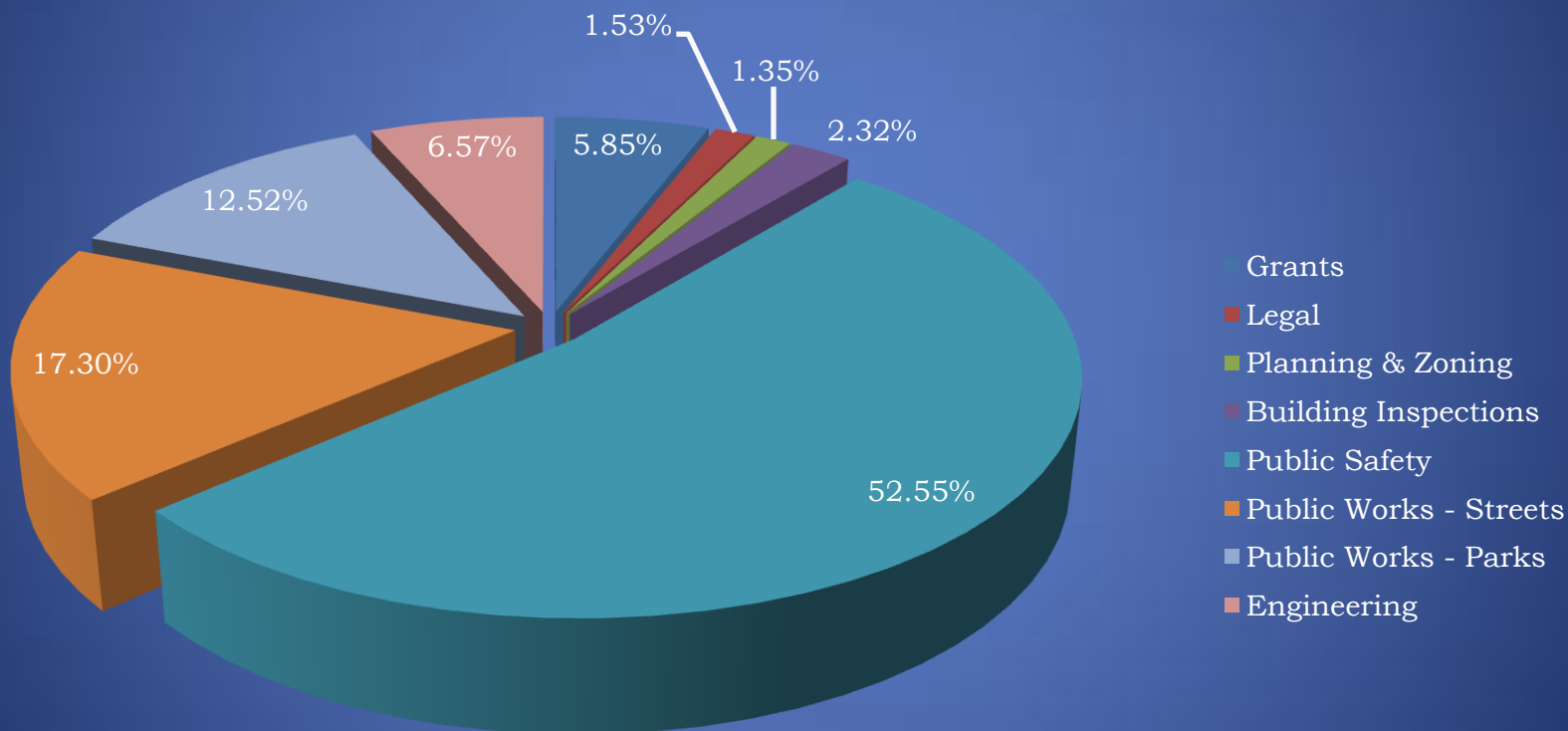


## Continued

- ◇ 2011 Proposed Expenditure Budget
  - ◇ \$20,644,777 for FY 2011
- ◇ 2011 Proposed Revenue Budget
  - ◇ Levy increase by 1.90% or \$250,818
    - ◇ Levy represents 44.92% of General Fund revenues
  - ◇ LGA is budgeted at \$6,369,493 for FY 2011
    - ◇ LGA is far below the high water mark for FY 2002 at \$9,371,261
    - ◇ LGA represents 30.78% of General Fund revenues
  - ◇ All remaining General Fund revenue streams projected to remain stable

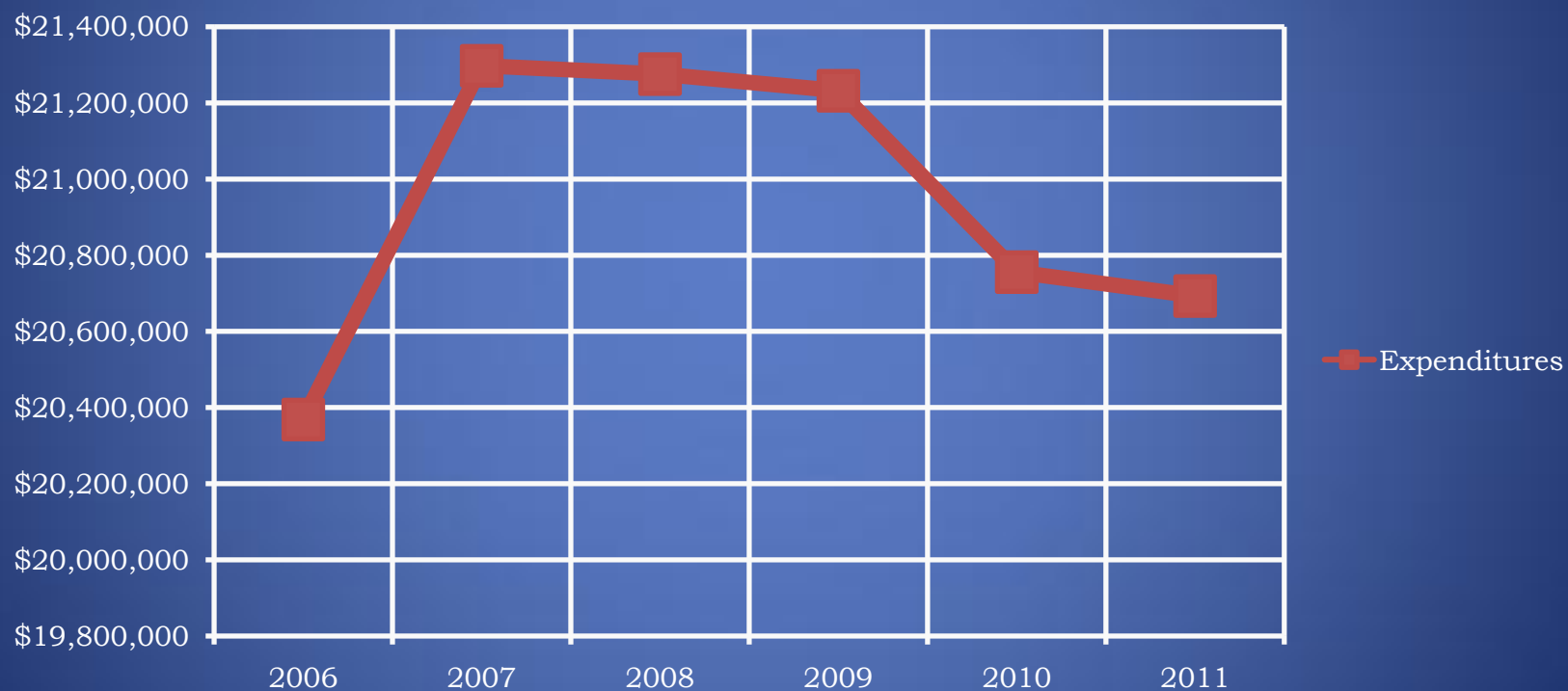
# General Fund

## Budget Expenditures



# General Fund continued

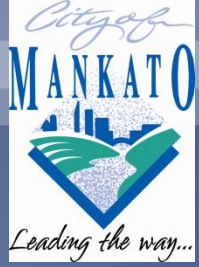
## Expenditures



# Debt Service Fund

- ◇ Proposed FY 2011 Tax Levy is 3,707,000
  - ◇ Represents a \$13,000 increase over FY 2010
- ◇ Levy funds Direct General Obligation Debt, Charter Bond Debt, General Obligation portion of Refunding Debt, a portion of the improvements to All Seasons Arena, and General Obligation Armory Bonds
- ◇ General Obligation Debt is retired at a relatively rapid rate:
  - ◇ Over 90% amortized within ten years
- ◇ City reviews projects annually & determines if any can be internally financed
  - ◇ Internal financing reduces bond issuance costs
  - ◇ City reviews previously issued debt annually & determines the feasibility for refinancing

# Why is our Bonding Rating Important?

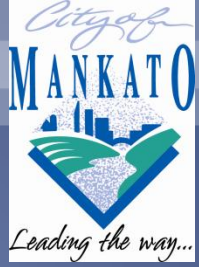


- ◇ Standard & Poor's rating of AA (December 2009)
- ◇ Moody's Investors Service rating of Aa2 (February 2010)
- ◇ Moody's rating received three prior upgrades between 2004 and 2009
- ◇ Bond rating upgrades translate directly to lower future bond interest = savings to taxpayers
- ◇ Future bond issuance will receive favorable consideration from potential bond investors

# Transit Fund

- ◇ 2011 Proposed Tax Levy is \$167,000
- ◇ No Tax Levy increase is proposed
- ◇ Tax Levy assists the city in meeting its 20% share of funding per the Transit Grant
- ◇ Transit Fares assist in meeting the remaining amount of the 20%
- ◇ MNDOT funds 80% of “eligible” transit expenses
- ◇ Contractual Agreement exists with MSU, Mankato for Campus Express, Parking Lot Shuttle Service, & evening Stomper Express service
- ◇ MSU – Mankato service is funded with the intent to be revenue neutral for the city
- ◇ North Mankato is to pay 100% of all Route 5 costs (whether eligible or non-eligible)
- ◇ North Mankato transit service is to be revenue neutral for the City of Mankato

# Economic Development Fund



- ◇ 2011 Proposed EDA Levy is \$260,000
  - ◇ No Levy increase is proposed
- ◇ Levy uses building rehabilitation, parking lot development, GMG, arts & culture, economic development, City Center Business Association, and Southern MN Initiative Foundation



# Notes for Other Funds

- ◇ No Water Utility rate increases are proposed
- ◇ No Wastewater Utility rate increases are proposed
- ◇ No Refuse Utility rate increases are proposed
- ◇ No Storm Water Utility rate increases are proposed
- ◇ No Transit Fare rate increases are proposed
- ◇ No Parking System rates increases are proposed

# Where does this take us...

- ◇ While we face budget challenges, our public expects quality and efficient service delivery. Even though our expenditures have been reduced, property taxes have not declined. This can be directly attributed to reductions in LGA and declining property valuations.
- ◇ We will continue to deliver our core services and not abandon livability initiatives. This is expected by the public.
- ◇ [What Matters?](#)
- ◇ If we should receive the LGA that we have been promised, we will be able to reinstate some service/staffing levels and capital expenditures/projects. This will depend upon the tenure of the legislature.

# For more information

- ◇ [Thank LGA](#)
- ◇ [Outside the Ox](#)
- ◇ [Cities Matter](#)
- ◇ [2011 City of Mankato Preliminary](#)

# For Council Discussion

- ◇ Community Grant funding levels
  - ◇ Proposed budget allocates \$22,500
- ◇ Library funding reduction of \$17,000 from proposed budget
  - ◇ 2010 funding (after LGA reduction) = \$545,275
  - ◇ 2011 funding = \$566,275
- ◇ Defer Madison Avenue and Transit Facility capital improvement projects
- ◇ Transfer \$400,000 from General Fund costs to Debt Service for Public Safety Center project costs

# For Council Discussion continued

- ◇ If LGA is appropriated at the legislated amount, the Council can examine reinstatement of the following options:
  - ◇ Reinstatement of a police/school resource officer or fill two patrol officer vacancies - \$149,000
  - ◇ Filling of two Public Works-Streets vacancies - \$112,000
  - ◇ Filling of one Public Works-Parks vacancy - \$54,000
  - ◇ Filling of three Firefighter vacancies - \$204,000
  - ◇ Four neighborhood park playgrounds - \$140,000
  - ◇ Reinstatement of Library funding/hours - \$117,000
  - ◇ Reinstatement of Tourtellotte Pool funding/hours - \$20,000

# For Council Discussion

continued

- ◇ Non-profit (Social Services) - \$60,000
- ◇ Reinstatement of Neighborhood Support Officer - \$48,000
- ◇ Deferrals – Public Safety (minor equipment) - \$67,000
- ◇ Public Works material cuts - \$63,000
- ◇ Seal coat/street repair cuts - \$175,000
- ◇ Neighborhood Park Development - \$167,000
- ◇ Reinstatement of across board hourly reduction - \$185,000
- ◇ Public Safety (Fire Station) Facility Debt Service Capacity - \$322,000
- ◇ Total Contingency Fund spending = \$1,883,000

**Questions or Comments**